

OPPENHEIMER WOLFF & DONNELLY

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RECEIVED
SURFACE TRANSPORTATION
BOARD

OCT 14 10 06 AM '97

RECORDATION NO. 20934 FILED

OCT 14 '97

10-06 AM

October 14, 1997

VIA MESSENGER

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street N.W.
Washington, D.C. 20423

Attn: Recordations Office

Dear Secretary Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. section 11301(a) are one executed original and one verified copy of a Security Agreement executed by Arizona and California Railroad Limited Partnership ("Arizona and California Railroad") as Debtor in favor of Lasalle National Bank ("Lasalle") as Secured Party. The enclosed Security Agreement is a primary document as defined in the Board's Rules for Recordation of Documents under 49 C.F.R. section 1177.1(a).

The name and address of the party executing the above-referenced Security Agreement is:

| | |
|---------|---|
| Debtor: | Arizona and California Railroad Limited Partnership |
| | Island Corporate Center |
| | 7525 S.E. 24th Street, Suite 350 |
| | Mercer Island, Washington 98040 |

The name and address of the secured party to the above-referenced Security Agreement is:

| | |
|---------------|--------------------------|
| Secured Party | LaSalle National Bank |
| | 135 South Lasalle Street |
| | Chicago, Illinois 60603 |

The equipment covered by the above-referenced Security Agreement includes locomotives owned by the Arizona and California Railroad as of August 29, 1997 or thereafter acquired by the Arizona and California Railroad or its successors or assigns.

Brussels
Chicago
Detroit
Geneva
Irvine
Los Angeles
Minneapolis
New York
Paris
Saint Paul
San Jose
Washington, D.C.

Carroll Part 2

OPPENHEIMER WOLFF & DONNELLY

Mr. Vernon A. Williams

October 14, 1997

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Also, enclosed is a check in the amount of \$24 payable to the order of the Surface Transportation Board for the filing of this document.

A short summary of the document to appear in the index follows:

Security Agreement, dated 8/29/97, executed by Arizona and California Railroad Company Limited Partnership as Debtor in favor of LaSalle National Bank as Secured Party. The property covered by this Security Agreement includes locomotives owned by the Arizona and California Railroad Company Limited Partnership as of 8/29/97 or thereafter acquired by it or its successors or assigns.

Kindly stamp the extra copy of the above-referenced Security Agreement and return it to the carrier of this letter.

Very truly yours,

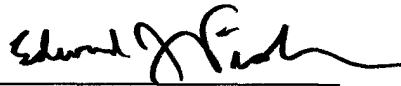
A handwritten signature in black ink, appearing to read "Edward J. Fishman", with a stylized flourish at the end.

Edward J. Fishman

Certification of Counterpart

I, Edward J. Fishman, certify that I have compared the attached copy of the Security Agreement with the original Security Agreement and have found the copy to be complete and identical in all respects to the original. I further declare under penalty of perjury that the foregoing is true and correct.

Executed on October 14, 1997

A handwritten signature in black ink, appearing to read "Edward J. Fishman", written over a horizontal line.

Edward J. Fishman

RECORDATION NO

20934 FILED

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10-06 AM

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Security Agreement") is made as of August 29, 1997, by ARIZONA & CALIFORNIA RAILROAD COMPANY LIMITED PARTNERSHIP, an Arizona limited partnership, with its chief executive office at Island Corporate Center, 7525 S.E. 24th Street, Suite 350, Mercer Island, Washington 98040 (whether one or more, the "Debtor"), in favor of LASALLE NATIONAL BANK, a national bank (the "Secured Party").

RECITALS

A. The Debtor and the Secured Party have executed and delivered that certain Credit Agreement dated the date hereof pursuant to which the Secured Party has made or committed to make loans to the Debtor. The Secured Party and Debtor have agreed that the loans will be secured by all of the tangible and intangible assets of the Debtor.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged by each of the parties hereto, it is agreed as follows:

1. DEFINITIONS

As used herein, the following terms shall have the meaning set forth:

"Accounts" means the Debtor's right to the payment of money from the sale, lease or other disposition of goods or other property by the Debtor, any franchise now or hereafter at any time held by the Debtor, a rendering of services by the Debtor, a loan by the Debtor, the overpayment of taxes or other liabilities of the Debtor, or otherwise any contract or agreement, whether such right to payment is already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all liens and security interests) that the Debtor may at any time have by law or agreement against any account debtor (as defined in the Illinois Uniform Commercial Code) or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor, including, but not limited to, all present and future debt instruments, chattel papers, insurance proceeds and accounts of the Debtor.

"Chattel Paper" means any writing or writings which evidence both a monetary obligation and a security interest in, or a lease of, specific Goods.

"Collateral" means all property in which a security interest is granted hereunder wherever located.

"Controlled Property" means property of every kind and description in which Debtor has or may acquire any interest, now or hereafter at any time in the possession, custody or control of Secured Party for any reason, and all dividends and distributions on or other rights in connection with such property.

"Credit Agreement" means the Credit Agreement dated as of the date hereof by and between Debtor, as Borrower, and Secured Party, as Lender (as amended, modified, restated or supplemented from time to time).

"Data Processing Records and Systems" means all of Debtor's now existing or hereafter acquired electronic data processing and computer records, software, systems, manuals procedures, disks, tapes and all other storage media and memory.

"Default" means any event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default.

"Deposit Accounts" mean all deposit accounts now existing or hereafter arising, maintained for or in Debtor's name and any and all funds at any time held therein.

"Document" means any bill of lading, dock warrant, dock receipt, warehouse receipt or order for the delivery of goods or any other document that is treated in the regular course of business or financing as adequately evidencing that the holder of such document is entitled to receive, hold and dispose of the document and the Goods it covers or any receipt issued for Goods that are stored under a statute requiring a bond against withdrawal or under a license for the issuance of receipts in the nature of warehouse receipts.

"Equipment" means any Goods used or bought for use primarily in the Debtor's business.

"Event of Default" has the meaning specified in Section 6 hereof.

"Fixtures" means any Goods which have become so affixed to particular real estate that an interest in them arises under real estate law.

"General Intangibles" means any personal property (including things in action) other than Goods, Accounts, Chattel Paper, Documents, Instruments and money.

"Goods" means any tangible personal property or Fixtures, including all things that are movable, but not including money, Documents, Instruments, Accounts, Chattel Paper, Locomotives, Rolling Stock, General Intangibles or minerals or the like before extraction.

"Instruments" means any negotiable instrument or certificated or non-certificated security or any other writing which evidences a right to the payment of money and is not itself a security agreement or lease and is of a type which is in the ordinary course of business transferred by delivery with any necessary endorsement or assignment.

"Insurance Proceeds" means all proceeds of any and all insurance policies payable to Debtor, or on behalf of Debtor's property, whether or not such policies are issued to or owned by Debtor.

"Inventory" means any Goods held for sale or lease or furnished or to be furnished under contracts of service, or raw materials, work in process or materials used or consumed in a business.

"Liens" means any and all mortgages, pledges, security interests, tax and other statutory liens, judgment liens, and other encumbrances of any nature whatsoever, whether consensual or non-consensual.

"Locomotives" means those railroad locomotives owned by the Debtor and described on Exhibit A hereto and any railroad locomotives acquired by the Debtor after the date hereof (other than locomotives acquired by the Debtor pursuant to lease).

"Obligations" means all indebtedness, obligations and liabilities of the Debtor to the Secured Party, howsoever evidenced, now existing or hereafter arising or incurred, direct or indirect, absolute or contingent, joint or several, howsoever owned, held or acquired by the Secured Party, whether by discount, direct loan, overdraft, purchase or otherwise.

"Partnership Interests" means Debtor's now existing or hereafter acquired partnership interest in each partnership described on Exhibit A hereto, together with all now existing or hereafter arising rights of Debtor to receive distributions of payments from such partnership, whether in cash or in kind, and whether such distributions or payments are on account of Debtor's interest as a partner, creditor or otherwise.

"Permitted Liens" means the Liens described in Part IV of Exhibit A attached hereto and made a part hereof.

"Proceeds" means whatever is received upon the sale, exchange, collection or other disposition of Collateral or Proceeds, including, but not limited to, Insurance Proceeds and return premiums.

"Products" means any goods now or hereafter manufactured, processed, assembled or commingled with any of the Collateral.

"Rolling Stock" means all boxcars, hoppers, tank cars and any and all other railroad cars owned or hereafter acquired by the Debtor.

Other terms defined herein shall have the meaning ascribed to them herein. All capitalized terms used herein not specifically defined herein shall have the meaning ascribed to them in the Credit Agreement.

2. SECURITY INTERESTS

2.1 Collateral. As security for the payment of all Obligations, Debtor hereby grants to Secured Party a security interest in all of Debtor's now owned or hereafter acquired or arising:

- a. Accounts;
- b. Chattel Paper;
- c. Controlled Property;
- d. Data Processing Records and Systems;
- e. Documents;
- f. Equipment and Fixtures;
- g. General Intangibles;
- h. Goods;
- i. Instruments;
- j. Insurance Proceeds;
- k. Inventory;
- l. Partnership Interests;

- m. Proceeds (whether cash or non-cash Proceeds, including non-cash Proceeds of all types including, but not limited to, Inventory, Equipment or Fixtures acquired with cash Proceeds); and
- n. Products of all the foregoing.

3. COVENANTS OF THE DEBTOR

3.1 Disposition or Encumbrance of Collateral. Except as otherwise permitted by the terms of the Credit Agreement, including, without limitation, Section 8.3 thereof, Debtor will not encumber, sell or otherwise transfer or dispose of the Collateral without the prior written consent of Secured Party. Until a Default or Event of Default has occurred and is continuing, Debtor may sell Inventory in the ordinary course of business and may sell Equipment and Fixtures which in the judgment of Debtor have become obsolete or unusable in the ordinary course of business, provided that all Proceeds of such sales are delivered directly to Secured Party or used to replace such Equipment and Fixtures which replacements or substitutions shall constitute Collateral hereunder.

3.2 Validity of Accounts. The Debtor warrants that all Accounts, Chattel Paper and Instruments will be bona fide existing obligations created by the sale and actual delivery of Goods or the rendition of services to customers in the ordinary course of business, which the Debtor then owns free and clear of any Liens other than the security interest created by this Security Agreement and Permitted Liens and which are then unconditionally owing to Debtor without defenses, offset or counterclaim, and that all shipping or delivery receipts, invoice copies and other documents furnished to Secured Party in connection therewith will be genuine, and that the unpaid principal amount of any Chattel Paper or Instrument and any security therefor is and will be as represented to Secured Party on the date of the delivery thereof to the Secured Party. Upon the request of the Secured Party, Debtor shall furnish to the Secured Party, from time to time, a list of the Debtor's Accounts, including without limitation, the name and address of each account debtor and the amount owed.

3.3 Maintenance of Equipment, Fixtures and Inventory; Location. Debtor will maintain the Equipment, Fixtures and Inventory or cause the Equipment, Fixtures and Inventory to be maintained in good condition and repair. At the time of attachment and perfection of the security interest granted pursuant hereto and thereafter, all Inventory, Equipment and Fixture Collateral will be located and will be maintained only at the locations set forth on Exhibit A hereto. Such Collateral will not be removed from such locations unless, prior to any such removal, the Debtor has given written notice to Secured Party of the location or locations to which the Debtor desires to remove the Collateral, Secured Party has given its written consent to such removal, and the Debtor has delivered to Secured Party acknowledgment copies of financing statements filed where appropriate to continue the perfection of Secured Party's security interest as a first priority security interest therein. Secured Party's security interest attaches to all of the Collateral wherever located and Debtor's failure to inform Secured Party of the location of any item or items of Collateral shall not impair Secured Party's security interest therein.

3.4 Notation on Chattel Paper. For purposes of the security interest granted pursuant to this Security Agreement, Secured Party has been granted a direct security interest in all Chattel Paper and such Chattel Paper is not claimed merely as Proceeds of Inventory. Upon Secured Party's request, Debtor will deliver to Secured Party the originals of all Chattel Paper. Debtor will not execute any copies of Chattel Paper other than those which are clearly marked as a copy. Secured Party may stamp any such Chattel Paper with a legend reflecting Secured Party's security interest therein.

3.5 Instruments as Proceeds. Notwithstanding any other provision in this Security Agreement concerning Instruments, Debtor covenants that Instruments constituting cash Proceeds (for example, money and checks) shall be deposited in deposit accounts with Secured Party containing only Proceeds.

3.6 Protection of Collateral. All expenses of protecting, storing, warehousing, insuring, handling and shipping of the Collateral, all costs of keeping the Collateral free of any Liens prohibited by this Security Agreement and of removing the same if they should arise, and any and all excise, property, sales and use taxes imposed by any state, federal or local authority on any of the Collateral or in respect of the sale thereof, shall be borne and paid by Debtor and if Debtor fails to promptly pay any thereof when due, Secured Party may, at its option, but shall not be required to, pay the same whereupon the same shall constitute Obligations and shall bear interest at the highest annual rate specified in the Obligations (the "Default Rate") and shall be secured by the security interest granted hereunder.

3.7 Additional Documentation. Debtor will execute, from time to time, such financing statements, assignments, and other documents covering the Collateral, including Proceeds, as Secured Party may request in order to create, evidence, perfect, maintain or continue its security interest in the Collateral (including additional Collateral acquired by the Debtor after the date hereof), and Debtor will pay the cost of filing the same in all public offices in which Secured Party may deem filing to be appropriate; and will notify Secured Party promptly upon acquiring any additional Collateral. Upon request, Debtor will deliver to Secured Party all Debtor's Documents, Instruments and Chattel paper.

3.8 Chief Executive Office. The location of the chief executive office of Debtor is set forth in the preamble hereto and will not be changed without thirty (30) days' prior written notice to Secured Party. Debtor warrants that its books and records concerning its Accounts and Chattel Paper are located at its chief executive office.

3.9 Name of Debtor. Debtor's true name is as set forth in the preamble hereto. Debtor has not used any other name within the past five (5) years except those described on Exhibit A attached hereto. Neither Debtor nor any predecessor in title to any of the Collateral has executed any financing statements or security agreements presently effective as to the Collateral except those described on Exhibit A attached hereto. Debtor shall not change its name or use any trade or assumed name without giving Secured Party fifteen (15) days prior written notice.

3.10 Power of Attorney. The Debtor appoints Secured Party, or any other person, whom Secured Party may from time to time designate, as Debtor's attorney with power to endorse Debtor's name on any checks, notes, acceptances, drafts, or other forms of payment or security that may come into Secured Party's possession, to sign Debtor's name on any invoice or bill of lading relating to any Collateral, on drafts against customers, on schedules and confirmatory assignments of Accounts, Chattel Paper, Documents, Instruments or other Collateral, on notices of assignment, financing statements under the Uniform Commercial Code (the "Code") and other public records, on verifications of Accounts and on notices to customers, to notify the post office authorities to change the address for delivery of Debtor's mail to an address designated by Secured Party, to receive and open all mail addressed to Debtor, to send requests for verification of Accounts, Chattel Paper, Instruments or other Collateral to customers, make any compromise or settlement, and take any action it deems advisable with respect to the Collateral, and to do all things necessary to carry out this Security Agreement. The Debtor ratifies and approves all acts of the attorney taken within the scope of the authority granted. Neither Secured Party nor the attorney will be liable for any acts of commission or omission nor for any error in judgment or mistake of fact or law. This power, being coupled with an interest, is irrevocable so long as any

Obligation remains unpaid. The Debtor waives presentment and protest of all instruments and notice thereof, notice of default and dishonor and all other notices to which Debtor may otherwise be entitled.

4. COLLECTIONS

4.1 Collection of Accounts. Except as otherwise provided in this Section 4, the Debtor shall continue to collect at its own expense, all amounts due or to become due to the Debtor, under the Accounts. In connection with such collections, the Debtor may take (and, at the Secured Party's direction, shall take) such action as the Debtor or the Secured Party may deem necessary or advisable to enforce collection of the Accounts; provided, however, that following an Event of Default, the Secured Party shall have the right, at any time to notify the account debtors under any Accounts of the assignment of such Accounts to the Secured Party and to direct such account debtors to make payment of all amounts due or to become due to the Debtor thereunder directly to the Secured Party. Upon such notification and at the expense of Debtor, the Secured Party shall have the right to enforce collection of such Accounts and to adjust, settle, or compromise the amount or payment thereof in the same manner and to the same extent as the Debtor might have done. The Secured Party shall apply all collections hereunder in accordance with Section 7.7.

4.2 Collection of Other Collateral Proceeds. At the request of Lender, the Debtor shall deposit into a collection account (the "Collection Account") maintained with the Secured Party immediately upon receipt all Proceeds of Collateral, other than Accounts, in the original form such payments are received, except for endorsement where necessary. The Secured Party is hereby authorized and directed to apply all such collected funds to the payment of the Obligations in the manner and in the priority determined by the Secured Party in the exercise of their its discretion. In the Event of Default, such funds shall be applied in accordance with Section 7.7.

5. ASSIGNMENT OF INSURANCE

Debtor hereby assigns to the Secured Party, as additional security for payment of the Obligations, any and all monies due or to become due under, and any and all other rights of Debtor with respect to, any and all policies of insurance covering the Collateral and Debtor hereby directs the issuer of any such policy to pay any such monies directly to the Secured Party. After the occurrence and during the continuation of a Default or Event of Default, the Secured Party may (but need not) in its own name or in Debtor's name execute and deliver proofs of claim, receive such monies, endorse checks and the instrument representing such monies, and settle or litigate any claim against the issuer of any such policy.

6. EVENTS OF DEFAULT

The occurrence of any Event of Default as defined in the Credit Agreement shall constitute an Event of Default hereunder ("Event of Default").

7. RIGHTS AND REMEDIES ON DEFAULT

Upon the occurrence of an Event of Default, and at any time thereafter until such Event of Default is cured to the satisfaction of Secured Party, and in addition to the rights granted to Secured Party under Sections 4 and 5 hereof or under any other document, agreement or other instrument evidencing, securing or otherwise relating to any of the Obligations, Secured Party may exercise any one or more of the following rights and remedies:

7.1 Acceleration of Obligations. Declare any and all Obligations to be immediately due and payable, and the same shall thereupon become immediately due and payable without further notice or demand.

7.2 Right of Offset. Offset any deposits, including unmatured time deposits, then maintained by Debtor with Secured Party, whether or not then due, against any indebtedness then owed by Debtor to Secured Party whether or not then due.

7.3 Deal with Collateral. In the name of Debtor or otherwise, demand, collect, receive and receipt for, compound, compromise, settle and give acquittance for and prosecute and discontinue any suits or proceedings in respect of any or all of the Collateral.

7.4 Realize on Collateral. Take any action which Secured Party may deem necessary or desirable in order to realize on the Collateral, including, without limitation, the power to foreclose any security interest, to perform any contract, to endorse in the name of Debtor any checks, drafts, notes, or other instruments or documents received in payment of or on account of the Collateral.

7.5 Access to Property. Enter upon and into and take possession of all or such part or parts of the properties of Debtor, including lands, plants, buildings, machinery, equipment, Data Processing Records and Systems and other property as may be necessary or appropriate in the judgment of Secured Party, to permit or enable Secured Party to store, lease, sell or otherwise dispose of or collect all or any part of the Collateral, and use and operate said properties for such purposes and for such length of time as Secured Party may deem necessary or appropriate for said purposes without the payment of any compensation to Debtor therefor. Debtor shall provide Secured Party with all information and assistance requested by Secured Party to facilitate the storage, leasing, assembly, sale or other disposition or collection of the Collateral after an Event of Default, and make such Collateral available to Secured Party on Secured Party's demand.

7.6 Other Rights. Exercise any and all other rights and remedies available to it by law, in equity or by agreement, including rights and remedies under the Minnesota Uniform Commercial Code or any other applicable law, or under the Credit Agreement and, in connection therewith, Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party, and any notice of intended disposition of any of the Collateral required by law shall be deemed reasonable if such notice is mailed or delivered to Debtor at its address as shown on Secured Party's records at least ten (10) days before the date of such disposition. The Secured Party may sell or otherwise dispose of any or all of the Collateral in a single unit or in multiple units and the Secured Party may be the purchaser at such sale or other disposition. The Debtor shall remain liable for any deficiency remaining after any such sale or other disposition of the Collateral.

7.7 Application of Proceeds. All proceeds of Collateral shall be applied in accordance with Section 9-504 of the Illinois Uniform Commercial Code and such proceeds applied toward the Obligations shall be applied in such order as the Secured Party may elect.

8. MISCELLANEOUS

8.1 No Liability on Collateral. It is understood that Secured Party does not in any way assume any of the Debtor's obligations under any of the Collateral and does not intend to create any third party beneficiary rights by taking or omitting any action herein. Debtor hereby agrees to indemnify Secured Party against all liability arising in connection with or on account of any of the Collateral,

except for any such liabilities arising on account of Secured Party's gross negligence or willful misconduct.

8.2 No Waiver. Secured Party shall not be deemed to have waived any of its rights hereunder or under any other agreement, instrument or paper signed by Debtor unless such waiver be in writing and signed by Secured Party. No delay or omission on the part of Secured Party in exercising any right shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion.

8.3 Remedies Cumulative. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at its option, and the exercise or enforcement of any one such right or remedy shall not bar or be a condition to the exercise or enforcement of any other.

8.4 Governing Law/Jurisdiction. This Security Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Illinois. Debtor hereby consents to the personal jurisdiction of the state and federal courts of the State of Illinois in connection with any controversy related to this Security Agreement, waives any argument that venue in such forums is not convenient and agrees that any litigation initiated by Debtor against Secured Party shall be venued in the State or Federal District Courts of Illinois.

8.5 Expenses. Debtor agrees to pay all costs, fees and expenses incurred by Secured Party in the exercise of any right or remedy available to it under this Security Agreement, whether or not suit is commenced, including, without limitation, attorneys' fees and legal expenses of counsel for the Secured Party incurred in connection with any appeal of a lower court's order or judgment, and any appraisal or survey fees, completion costs, storage and transportation charges.

8.6 Successors and Assigns. This Security Agreement shall be binding upon and inure to the benefit of the successors and assigns of Debtor and Secured Party.

8.7 Recitals. The above Recitals are true and correct as of the date hereof and constitute a part of this Security Agreement.

8.8 Prior Security Agreements. The security interests granted by the Debtor to the Secured Party under this Security Agreement are in addition to, and shall be consolidated with, the liens and security interests granted by the Debtor to the Secured Party under any prior security agreement, mortgage or other document without affecting the lien, priority or effectiveness of those prior liens, security interests and agreements.

8.9 Copy of Security Agreement as Financing Statement. The Secured Party may file a reproduced copy or photostatic copy or other reproduction of this Security Agreement as a Financing Statement.

8.10 Multiple Counterparts. This Security Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, and all of which shall constitute one and the same agreement.

IN WITNESS WHEREOF, the Debtor has caused the execution of this Security Agreement by its duly authorized representative as of the date and year first above written.

ARIZONA & CALIFORNIA RAILROAD
COMPANY LIMITED PARTNERSHIP,
By ParkSierra Corporation, General Partner

By: David L. Parkinson
Name: David L. Parkinson
Title: President

Acknowledgment

I, David L. Parkinson, certify that I am the President of ParkSierra Corporation, general partner in the Arizona & California Railroad Company Limited Partnership, that the foregoing instrument was signed on behalf of the limited partnership by such general partner under authority of its Limited Partnership Agreement and that I acknowledge that the execution of the foregoing instrument was the free act and deed of the partnership. I further declare under penalty of perjury that the foregoing is true and correct.

Executed on ^{2nd} ~~September~~ October 3, 1997.

By: _____
Name: David L. Parkinson
Title: President

David L. Parkinson
David L. Parkinson

NO CORPORATE SEAL HEREOF, the Debtor has caused the execution of this Security Agreement by its duly authorized representative as of the date and year first above written.

STATE OF WASHINGTON
NOTARY PUBLIC
RICHARD G. GINGER
COMMISSION EXPIRES
2-28-2001

Subscribed and sworn to this 3rd day of
~~September~~ October, 1997.

Richard G. Ginger
Notary Public

My commission expires: 2/28/2001

EXHIBIT A
TO SECURITY AGREEMENT
DATED August 29, 1997
BETWEEN ARIZONA & CALIFORNIA RAILROAD COMPANY LIMITED PARTNERSHIP,
an Arizona limited partnership,
as Debtor and
LASALLE NATIONAL BANK, a national bank,
as Secured Party

(1) Financing Statements on File Listing Debtor or Any Predecessor in Title as Debtor

(2) Location(s) of Equipment, Fixtures and Inventory

All tangible collateral will be located on the Railroad as defined in Credit Agreement

(3) Prior Names

Debtor conducts business under the tradename Puget Sound & Pacific Railroad

(4) Permitted Liens

All Liens on those certain items of personal property, equipment and vehicles identified below and leased by the Debtor pursuant to the personal property leases identified below ("Leases"), shall not be a part of the Collateral except to the extent such personal property is purchased by the Debtor and the property rights in such personal property are voluntarily transferred to Debtor by such Lessors or their successors or assigns.

(a)(1) Lease Agreement between BA Leasing & Capital Corporation and Arizona & California Railroad Company Limited Partnership, dated December 27, 1994; UCC-1 Financing Statement filed on 1/5/95, File No. 9501960618 (CA); UCC-1 Financing Statement filed on 1/9/95, File No. 815334 (AZ).

Subject of Lease and UCC-1 Financing Statement Filings: Two (2) GM GP35 rebuilt locomotives:

(1) CR2262, now ARZC 3501;

(2) CR2339, now ARZC 3502.

(a)(2) Assignment by BA Leasing & Capital Corporation to Security Pacific Equipment Leasing, Inc. filed on 9/11/95, File No. 95258C0362 (CA); Assignment by BA Leasing & Capital Corporation to Security Pacific Equipment Leasing, Inc., filed on 8/28/95, File No. 815334 (AZ).

Subject of Assignment: Two (2) GM GP35 rebuilt locomotives:

(1) ARZC 3501 (recorded as ACR 3501);

(2) ARZC 3502 (recorded as ACR 3502).

(b) Lease Agreement between BA Leasing & Capital Corporation and Arizona & California Railroad Company Limited Partnership, dated December 16, 1992; UCC-1 Financing Statement filed on 12/21/92, File No. 92271206 (CA); UCC-1 Financing Statement filed on 12/28/92, File No. 728818 (AZ).

Subject of Lease and UCC-1 Financing Statement Filings:

(1) One (1) 1990 Tamper Electromatic ECTR130 AGL Mark III Switch Production Tamper, Serial No. 3593720;

(2) One (1) 1982 Kershaw Ballast Regulator, Model 26-2, Serial No. 17-3152-26-12X9;

(3) One (1) 1990 Case Extendahoe Loader, Model 580-K, Serial No. JYG01301317;

(4) One (1) 1989 Butler 12.5 Ton Trailer, Model B2420FD, Vehicle Identification No. 1BUD20208I1002168;

(5) One (1) 1991 Ford 3/4 Ton Pickup with Tool Box, 110 Gallon external fuel tank/pump, Model F250, Vehicle Identification Number 1FTHF25H3MNA56261.

(c)(1) Lease Agreement between BA Leasing & Capital Corporation and Arizona & California Railroad Company, dated April 23, 1996; UCC-1 Financing Statement filed on 5/14/96, File Number 9613661094 (CA); UCC-1 Financing Statement filed on 5/13/96, File Number 897589 (AZ).

Subject of Lease and UCC-1 Financing Statement Filings: Five (5) GM GP30m locomotives:

(1) OHCR 4201

(2) OHCR 4217

(3) OHCR 4220

(4) OHCR 4236

(5) OHCR 4239.

(c)(2) Second Amendment to Lease, dated November 27, 1996

Subject of Amendment: Conversion of Ohio Central numbers to Arizona & California numbers:

(1) OHCR 4201 = ARZC 3001

- (2) OHCR 4217 = ARZC 3002
- (3) OHCR 4220 = ARZC 3003
- (4) OHCR 4236 = ARZC 3004
- (5) OHCR 4239. = ARZC 3005 (now PSAP 3005)

(d) Lease Agreement between McCullagh Leasing, Inc. and Arizona & California Railroad Company, dated April 18, 1991.

Subject of Lease: Miscellaneous vehicles.

(e) UCC-1 Financing Statement filed on 10/25/91, File No. 683415 (AZ); NBD Park Ridge Bank, successor in interest to National Railway Equipment Co., Inc.

Subject of UCC-1 Financing Statement Filing: Five (5) GP20 Locomotives:

- (1) Unit No. 2001, EMD 2000 H.P. Locomotive
- (2) Unit No. 2002, EMD 2000 H.P. Locomotive
- (3) Unit No. 2004, EMD 2000 H.P. Locomotive
- (4) Unit No. 2005, EMD 2000 H.P. Locomotive
- (5) Unit No. 2006, EMD 2000 H.P. Locomotive

(f) UCC-1 Financing Statement Filing by Canyon State Oil Company on 11/21/96, File No. 944530 (AZ).

(5) Owned Locomotives:

See attached Schedule I.

SCHEDULE I

LOCATION: MID AMERICA CAR
KANSAS CITY, MISSOURI

GENERAL

LOCOMOTIVE NUMBER: 3724 INITIALS: GATX
OWNER: GATX CAPITAL CORP. OPERATED BY: N/A
LOCOMOTIVE MODEL: GP 38 AC REMOVED FROM SERVICE: 9/15/90
(CONVERTED GP 40)
ENGINE MODEL: 16 645E REBUILD DATE: 1989
TYPE TRUCK: 2 AXLE, RIGID TRUCK WITH CLASP BRAKES AND COMPOSITION SHOES
GEAR RATIO: 62:15
YEAR BUILT: 1969
RATED HORSE POWER: 2000
MAIN GENERATOR/ALTERNATOR MODEL: AR/10
AUXILIARY GENERATOR MODEL: 18 KW
TRACTION MOTOR MODEL: 1. D 77 2. D 77 3. D 77 4. D 77 5. 6.
AIR BRAKE SYSTEM: 26 L WITH DEAD MAN FOOT PEDAL FEATURE
LAST TEST DATE 3/23/89
CONTROL STAND: AAR
FUEL CAPACITY: 3500 GALLONS
COOLING FANS: 3 EA. 48 INCH
AIR COMPRESSOR MODEL: GARDNER-DENVER WBO HIGH BASE IMPROVED MAINTENANCE
COUPLER TYPE: E
ELECTRICAL SYSTEM CONDITION: STANDARD GP 40 MODIFIED TO GP 38
SPECIFICATIONS INCLUDING LOW IDLE FEATURE. HIGH AND LOW VOLTAGE WIRING AND
CABLING ORIGINAL AND IN GOOD CONDITION. UNIT EQUIPPED WITH DYNAMIC
BRAKING AND 27 PIN M.U. RECEPTACLES.
ENGINE CONDITION: ENGINE AND ENGINE BLOWERS IN VERY GOOD CONDITION, HAS
BEEN RECENTLY OVERHAULED AND WELL MAINTAINED. ENGINE HAS MODIFIED TURBO
CHARGER EXHAUST MANIFOLDS.

MAINTENANCE ITEM INFORMATION:

ENGINE INTAKE ELEMENTS: 4 EA. (AMERICAN FIBER GLASS FILTER BAGGIES)

IMPINGEMENT FILTERS (CARBODY): N/A

FUEL FILTER ELEMENT: 2 EA. 8423132 1 EA. 8281231 1 EA. 9324489

LUBE OIL FILTER ELEMENT: 7 EA. 8345482

AIR COMPRESSOR AIR FILTER: 1 EA. 8402068

AIR COMPRESSOR OIL FILTER: 1 EA. 9331037

ELECTRICAL LOCKER FILTERS: 4 EA. 8345482

UNUSUAL FEATURES: NONE

GENERAL OVERALL CONDITION AND SERVICEABILITY: EXCELLENT. UNIT HAS RECENTLY BEEN PAINTED AND HAS AN EXCELLENT FINISH, CURRENTLY IN GATX LEASE FLEET. COLORS. UNIT WAS STORED SERVICEABLE AND CAN BE RETURNED TO SERVICE UPON COMPLETION OF MINOR REPAIRS START UP AND MAINTENANCE PROCEDURES.

AUXILIARY EQUIPMENT:

CAB HEAT: 2 EA. ELECTRIC CAB HEATERS AND 2 EA. ELECTRIC SIDE WALL HEATERS

SPEED INDICATOR: MECHANICAL, CHICAGO PNEUMATIC

STAND BY HEATING SYSTEM: N/A

SANITARY EQUIPMENT: FUNCTIONAL TOILET

RADIO: N/A

REFRIGERATOR/WATER COOLER: AJAX REFRIGERATOR

REMARKS: DUE TO STORAGE OVER WINTER MONTHS THE BATTERIES ARE CRACKED AND BROKEN DUE TO FREEZING AND SHOULD BE RENEWED. DUE TO WHEEL SIZE VARIATIONS WE RECOMMEND THE REPLACEMENT OF #1 WHEEL SET.

LOCATION: BUFFALO AND PITTSBURG RAILROAD
PUNXSUTAWNEY, PENNSYLVANIA

GENERAL

LOCOMOTIVE NUMBER: 3705 INITIALS: GATX
OWNER: GATX CAPITAL CORP. OPERATED BY: N/A
LOCOMOTIVE MODEL: GP 38 AC REMOVED FROM SERVICE: 12/16/90
ENGINE MODEL: 16 645E REBUILD DATE: 1988
TYPE TRUCK: 2 AXLE, RIGID TRUCK WITH CLASP BRAKES AND COMPOSITION SHOES
GEAR RATIO: 62:15
YEAR BUILT: 1969
RATED HORSE POWER: 2000
MAIN GENERATOR/ALTERNATOR MODEL: AR/10
AUXILIARY GENERATOR MODEL: 18 KW
TRACTION MOTOR MODEL: 1. D 77 2. D 77 3. D 77 4. D 77 5. 6.
AIR BRAKE SYSTEM: 26 L WITH DEAD MAN FOOT PEDAL FEATURE
LAST TEST DATE 9/6/88
CONTROL STAND: AAR
FUEL CAPACITY: 3500 GALLONS
COOLING FANS: 3 EA. 48 INCH
AIR COMPRESSOR MODEL: GARDNER-DENVER W80 HIGH BASE IMPROVED MAINTENANCE
COUPLER TYPE: E
ELECTRICAL SYSTEM CONDITION: STANDARD GP 40 MODIFIED TO GP 38
SPECIFICATIONS INCLUDING LOW IDLE FEATURE. HIGH AND LOW VOLTAGE WIRING AND
CABLING ORIGINAL AND IN GOOD CONDITION. UNIT EQUIPPED WITH DYNAMIC
BRAKING AND 27 PIN M.U. RECEPTACLES.
ENGINE CONDITION: ENGINE AND ENGINE BLOWERS IN VERY GOOD CONDITION. HAS
BEEN RECENTLY OVERHAULED AND WELL MAINTAINED. ENGINE HAS MODIFIED TURBO
CHARGER EXHAUST MANIFOLDS.

MAINTENANCE ITEM INFORMATION:

ENGINE INTAKE ELEMENTS: 4 EA. (AMERICAN FIBER GLASS FILTER BAGGIES)

IMPINGEMENT FILTERS (CARBODY): N/A

FUEL FILTER ELEMENT: 2 EA. 8423132 1 EA. 8281231 1 EA. 9324489

LUBE OIL FILTER ELEMENT: 7 EA. 8345482

AIR COMPRESSOR AIR FILTER: 1 EA. 8402068

AIR COMPRESSOR OIL FILTER: 1 EA. 9331037

ELECTRICAL LOCKER FILTERS: 4 EA. 8345482

UNUSUAL FEATURES: PILOT MOUNTED SNOW PLOW (FRONT)

GENERAL OVERALL CONDITION AND SERVICEABILITY: EXCELLENT. UNIT HAS RECENTLY BEEN PAINTED AND HAS AN EXCELLENT FINISH, CURRENTLY IN GATX LEASE FLEET COLORS. UNIT WAS STORED SERVICEABLE AND CAN BE RETURNED TO SERVICE UPON COMPLETION OF MINOR REPAIRS AND MAINTENANCE.

AUXILIARY EQUIPMENT:

CAB HEAT: 2 EA. HOT WATER/ELECTRIC CAB HEATERS

SPEED INDICATOR: GENERAL ELECTRIC

STAND BY HEATING SYSTEM: N/A

SANITARY EQUIPMENT: FUNCTIONAL TOILET

RADIO: MOTOROLA 4 CHANNEL

REFRIGERATOR/WATER COOLER: NONE

REMARKS: DUE TO WHEEL SIZE FLANGE THICKNESS WE RECOMMEND TRUING #1 WHEEL BEFORE PUTTING UNIT INTO SERVICE.

LOCATION: BUFFALO AND PITTSBURG RAILROAD
PUNXSUTAWNEY, PENNSYLVANIA

GENERAL

LOCOMOTIVE NUMBER: 3730 INITIALS: GATX
OWNER: GATX CAPITAL CORP. OPERATED BY: N/A
LOCOMOTIVE MODEL: GP 38 AC REMOVED FROM SERVICE: 12/6/90
(CONVERTED GP 40)
ENGINE MODEL: 16 645E REBUILD DATE: 1989
TYPE TRUCK: 2 AXLE, RIGID TRUCK WITH CLASP BRAKES AND COMPOSITION SHOES
GEAR RATIO: 62:15
YEAR BUILT: 1969
RATED HORSE POWER: 2000
MAIN GENERATOR/ALTERNATOR MODEL: AR/10
AUXILIARY GENERATOR MODEL: 10 KW
TRACTION MOTOR MODEL: 1. D 77 2. D 77 3. D 77 4. D 77 5. 6.
AIR BRAKE SYSTEM: 26 L WITH DEAD MAN FOOT PEDAL FEATURE
LAST TEST DATE 11/8/88
CONTROL STAND: AAR
FUEL CAPACITY: 3500 GALLONS
COOLING FANS: 3 EA. 48 INCH
AIR COMPRESSOR MODEL: GARDNER-DENVER W80 HIGH BASE IMPROVED MAINTENANCE
COUPLER TYPE: E
ELECTRICAL SYSTEM CONDITION: STANDARD GP 40 MODIFIED TO GP 38
SPECIFICATIONS INCLUDING LOW IDLE FEATURE. HIGH AND LOW VOLTAGE WIRING AND
CABLING ORIGINAL AND IN GOOD CONDITION. UNIT EQUIPPED WITH DYNAMIC
BRAKING AND 27 PIN M.U. RECEPTACLES.
ENGINE CONDITION: ENGINE AND ENGINE BLOWERS IN VERY GOOD CONDITION, HAS
BEEN RECENTLY OVERHAULED AND WELL MAINTAINED. ENGINE HAS MODIFIED TURBO
CHARGER EXHAUST MANIFOLDS.

MAINTENANCE ITEM INFORMATION:

ENGINE INTAKE ELEMENTS: 4 EA. (AMERICAN FIBER GLASS FILTER BAGGIES)

IMPINGEMENT FILTERS (CARBODY): N/A

FUEL FILTER ELEMENT: 2 EA. 8423132 1 EA. 8281231 1 EA. 9324489

LUBE OIL FILTER ELEMENT: 7 EA. 8345482

AIR COMPRESSOR AIR FILTER: 1 EA. 8402068

AIR COMPRESSOR OIL FILTER: 1 EA. 9331037

ELECTRICAL LOCKER FILTERS: 4 EA. 8345482

UNUSUAL FEATURES: AUXILIARY FRONT PILOT MOUNTED HEADLIGHTS (DITCH LIGHTS)

GENERAL OVERALL CONDITION AND SERVICEABILITY: EXCELLENT. UNIT HAS RECENTLY BEEN PAINTED AND HAS AN EXCELLENT FINISH, CURRENTLY IN GATX LEASE FLEET COLORS. UNIT WAS STORED SERVICEABLE AND CAN BE RETURNED TO SERVICE UPON COMPLETION OF PROPER START UP AND MAINTENANCE PROCEDURES.

AUXILIARY EQUIPMENT:

CAB HEAT: 2 EA. ELECTRIC CAB HEATERS AND 2 EA. ELECTRIC SIDE WALL HEATERS

SPEED INDICATOR: MECHANICAL, CHICAGO PNEUMATIC

STAND BY HEATING SYSTEM: N/A

SANITARY EQUIPMENT: FUNCTIONAL TOILET

RADIO: MOTOROLA 4 CHANNEL

REFRIGERATOR/WATER COOLER: AJAX REFRIGERATOR

REMARKS: LOCOMOTIVE WHEELS RECENTLY REPLACED NEW.

LOCATION: NATIONAL RAILWAY EQUIPMENT CO.
DIXMOOR, ILLINOIS

GENERAL

LOCOMOTIVE NUMBER: 1990 INITIALS: NONE
OWNER: NREC OPERATED BY: N/A
LOCOMOTIVE MODEL: GP 38 AC REMOVED FROM SERVICE: 11/25/89
ENGINE MODEL: 16 645E REBUILD DATE: N/A
TYPE TRUCK: 2 AXLE, RIGID TRUCK WITH DUAL CLASP BRAKES WITH CAST IRON SHOES
GEAR RATIO: 62:15
YEAR BUILT: 1970
RATED HORSE POWER: 2000
MAIN GENERATOR/ALTERNATOR MODEL: AR 10
AUXILIARY GENERATOR MODEL: 10 KW
TRACTION MOTOR MODEL: 1. D 77 2. D 77 3. D 77 4. D 77 5. 6.
AIR BRAKE SYSTEM: 26 L LAST TEST DATE 8/23/88
CONTROL STAND: AAR
FUEL CAPACITY: 2600 GALLONS
COOLING FANS: 3 EA. 48 INCH
AIR COMPRESSOR MODEL: GARDNER DENVER WBO HIGH BASE IMPROVED MAINTENANCE
COUPLER TYPE: F
ELECTRICAL SYSTEM CONDITION: STANDARD GP 38 SYSTEM, HIGH AND LOW VOLTAGE WIRING AND CABLING ORIGINAL AND IN VERY GOOD CONDITION. UNIT EQUIPPED WITH DYNAMIC BRAKING, 27 PIN M.U. RECEPTACLES AND STANDARD POWER CONTACTORS AND REVERSERS.
ENGINE CONDITION: ENGINE AND ENGINE BLOWERS IN VERY GOOD CONDITION.

MAINTENANCE ITEM INFORMATION:

ENGINE INTAKE ELEMENTS: 12 EA. FARR 250 DYNACELL

IMPINGEMENT FILTERS (CARBODY): N/A

FUEL FILTER ELEMENT: 2 EA. 8423132 1 EA. 8281231 1 EA. 9324489

LUBE OIL FILTER ELEMENT: 7 EA. 8345482

AIR COMPRESSOR AIR FILTER: 2 EA. 8402068

AIR COMPRESSOR OIL FILTER: 1 EA. 9331037

ELECTRICAL LOCKER FILTERS: 4 EA. 8345482

UNUSUAL FEATURES: PILOT MOUNTED SNOW PLOW (FRONT)

GENERAL OVERALL CONDITION AND SERVICEABILITY: EXCELLENT. INTERIOR HAS RECENTLY BEEN PAINTED AND EXTERIOR PARTIALLY PRIMERED, CURRENTLY IN UNION PACIFIC COLORS. UNIT WAS STORED SERVICABLE AND CAN BE RETURNED TO SERVICE UPON COMPLETION OF PROPER START UP AND MAINTENANCE PROCEDURES.

AUXILIARY EQUIPMENT:

CAB HEAT: 2 EA. ELECTRIC CAB HEATERS 2 EA. SIDE WALL HEATERS

SPEED INDICATOR: PULSE ELECTRIC SPEED INDICATOR

STAND BY HEATING SYSTEM: N/A

SANITARY EQUIPMENT: SELF CONTAINED TOILET

RADIO: REMOVED

REFRIGERATOR/WATER COOLER: AJAX REFRIGERATOR NONE

REMARKS: NONE